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SUBJECT: CODEL STEVENS DISCUSSES ENERGY POLICY WITH NDRC  
VICE CHAIRMAN CHEN DEMING

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Summary  
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¶1. (SBU) CODEL Stevens, accompanied by the Ambassador, discussed energy policy with new National Development and Reform Commission (NDRC) Vice Chairman Chen Deming. Chen emphasized that China intends to maintain 90 percent energy self-sufficiency by relying on domestic coal resources and development of hydro, nuclear and alternative power sources. He outlined projections for future oil imports and described policies to limit increases in production and increase efficiency and cleanliness of passenger cars. The Senators and Chen discussed areas of potential bilateral cooperation and Chen noted plans for upcoming bilateral discussions with USG officials on energy development. End Summary.

¶2. (SBU) Over breakfast hosted by NPC Vice Chairman Sheng Huaren on August 12, incoming NDRC Vice Chairman Chen Deming made a surprise appearance to outline China's energy policies and challenges for CODEL Stevens. Chen, who was appointed to the NDRC in May after serving as Governor of China's western Shaanxi Province, described his current portfolio at NDRC as including strategic planning, system reform and energy issues. (Note: China does not have an Energy Ministry and NDRC is charged with coordinating energy policy. End note.)

¶3. (SBU) Chen led off the discussion by describing China's current energy usage and production capacity. China produces 2.1 billion tons coal equivalent (tce) of energy and consumes about 2.2 billion tce per year, exports 45 million metric tons of coal per year and imports about 130 million metric tons of crude oil on an annual basis. China is 82 percent reliant on coal for its current power generation capacity, 14 percent on hydropower and 4 percent on nuclear power. Alternative and renewable energy sources such as solar, wind and geothermal currently total less than one percent of China's productive capacity. Total installed power generation capacity is about 500 gigawatts, Chen stated.

14. (SBU) Regarding future energy needs, China's reliance on coal will remain at about 80 percent, Chen said. China plans to update equipment in one-half of current coal-fired power plants to improve efficiency and reduce pollutants by 2020. China plans to increase hydro and nuclear productive capacity by 40 gigawatts by 2010. The contribution of renewable energy sources should increase to 1.5 percent by 2020. Imports of crude oil will increase slightly in the coming years, Chen acknowledged, but oil imports will mainly be directed to strategic reserves and coastal areas. China will import some LNG for use in coastal areas, as well, although at current high fuel prices, crude oil and LNG imports will be delayed until prices come down.

15. (SBU) China is working to put new technologies to use in its search for energy supplies, Chen noted. Chinese companies are cooperating with several international firms to convert coal to oil through CTL (coal to liquid) processes. Several Chinese companies have developed their own CTL technology and are producing domestically. Chinese companies are collaborating with foreign firms, among them Dow Chemical, to transform coal into MTO (methanol to olefin) or MTP (methanol to polypropylene). Chinese have successfully developed a domestic technology to produce MTO.

16. (SBU) Chen described increasing interest on the part of Chinese farmers and localities in biogas and ethanol production. Because of safety concerns, China has not taken full advantage of mixing ethanol with

BEIJING 00016814 002 OF 003

gasoline. Chen said it would take 20 years of trials to determine whether there are "harmful effects." These trials are ongoing and subsidized by the Government. Current trials mix 10 percent ethanol with gasoline. In China's North, sweet potatoes and corn are used to produce ethanol, while sugar cane is used in the South.

17. (SBU) Chen said he had recently returned from Inner Mongolia where he inspected a major wind farm. Wind turbines currently in use are the product of cooperation with Denmark and Spain, but have small capacity. China hopes to increase cooperation with the United States in this area. Another area for potential increased cooperation is in development of solar technology. China is planning to discuss this with the U.S. Department of Energy in upcoming consultations, Chen said.

18. (SBU) Asked by Senator Stevens about estimated oil import costs, Chen said China's current oil imports stand at 130 million metric tons per year. Projected increases in oil imports over the next five years will nevertheless not see China exceed 150 million metric tons of crude oil imports per year. Sheng Huaren, who spent much of his career in China's oil industry, interjected that China's total crude oil imports eight years ago were 60 million tons per year. With world oil imports rising from 3.2 billion metric tons per year eight years ago to 4.3 billion metric tons today, China's contribution to increased oil imports over the past eight years is around eight percent, Sheng stated.

19. (SBU) Senator Murray asked Chen about development of nuclear power and China's capacity to handle spent fuel. Because China's current nuclear power production is so limited, China hires a company to handle its nuclear waste. After storage, the waste is buried deep in a remote area. In the future, as China

increases its nuclear power capacity, this method of waste disposal will no longer be viable, Chen said. Regarding nuclear power development, China's current plan is to introduce third generation (3G) nuclear technology. The United States and Japan are competing against France to win the contract. Beijing's requirement is that the provider be willing to transfer technology to China.

¶10. (SBU) Senator Coleman asked about increasing passenger auto transport and its implications for energy usage, pollution and transportation infrastructure. Chen said China currently has over 20 million cars and acknowledged that the number is increasing rapidly. However, he said that the Central Government has recently enacted measures to limit private car purchases and develop public transportation. By the 2008 Beijing Olympics, all auto manufacturers will be obliged to comply with EU3 or EU4 emissions standards. The Government has eliminated subsidized loans for automobile manufacturers and is promoting the development of railroads and public transportation. Special incentives are being provided to cities with populations of over one million to develop public transportation infrastructure.

¶11. (SBU) Production of automobiles decreased in 2005, according to Chen, who stated that growth of approximately ten percent per year in automobile production would be desirable. The Government is encouraging auto manufacturers to develop new, cleaner technologies. Some of these involve switching to natural gas at low speeds, solar powered cars and hybrids. Two Chinese companies have developed hybrid technology, but the technology is still in the experimental stage.

¶12. (SBU) Senator Stevens asked about China's commitment to hydro power in the wake of Three Gorges Dam construction and attendant problems. Chen said

BEIJING 00016814 003 OF 003

that China is committed to further developing its rich hydropower resources, but must take adequate care to provide for environmental protection. Chen said he noted that the United States had made extensive efforts to eliminate dams in a number of areas. He understands, however, that now new dams are being constructed in the United States. He said he hopes to learn more about the U.S. experience with hydropower in upcoming consultations with USG officials.

#### PARTICIPANTS

¶13. (U) U.S. Participants:  
Senator Ted Stevens  
Ambassador Clark T. Randt, Jr.  
Senator Patty Murray  
Senator Thad Cochran  
Senator Arlen Specter  
Senator Mark Dayton  
Senator Lamar Alexander  
Senator Norm Coleman  
Senator Richard Burr  
Senate Staff  
Embassy notetaker  
Interpreter

Chinese Participants:  
NPC Vice Chairman Sheng Huaren  
NDRC Vice Chairman Chen Deming  
NPC Foreign Affairs Committee Vice Chairman Lu Congmin  
NPC Deputy Secretary General Wang Wanbing  
NPC Foreign Affairs Committee Director Peng Fang

Chinese Embassy in Washington Counselor Chen Guomin  
Notetakers  
Interpreter

¶14. (U) CODEL Stevens did not have the opportunity to  
clear this message.  
RANDT